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TO RUEHC/SECSTATE WASHDC 6171
INFO RUEHBO/AMEMBASSY BOGOTA 4874
RUEHBR/AMEMBASSY BRASILIA 7461
RUEHBU/AMEMBASSY BUENOS AIRES 2983
RUEHCV/AMEMBASSY CARACAS 0568
RUEHLP/AMEMBASSY LA PAZ JUL QUITO 1344
RUEHSG/AMEMBASSY SANTIAGO 1384
RUEHBJ/AMEMBASSY BEIJING 0401
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
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UNCLAS LIMA 002429

SIPDIS

USTR FOR BHARMAN AND MCARRILLO
COMMERCE FOR 4331/MAC/WH/MCAMERON
TREASURY FOR MMALLOY

SIPDIS

E.O. 12958: N/A
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SUBJECT: EXPORTS TO CHINA GROW, FTA BY LATE 2008

REF: LIMA 330

11. Summary: Peru's exports to China have surpassed those to the United States for two of the first five months in 2007, making China an increasingly important factor in Peru's economy. Mined metals and fishmeal accounted for 90% of Peru's exports to input-hungry China. By the end of July, Peruvian and Chinese officials expect to conclude a viability study for the negotiation of a bilateral free trade agreement (FTA). They estimate that the FTA could be signed in time for the Lima APEC summit in November 2008. The FTA will exclude sensitive sectors for both countries: textiles and footwear for Peru, and agricultural products for China. End Summary.

CHINA TOPS THE U.S.

12. Peru's trade with China has been on the rise. Exports to China grew by 21% in 2006 to \$2.3 billion (see reftel), and as of May 2007, exports to China had grown more than 64% compared to the same period in 2006. Exports to China surpassed those to the U.S. (Peru's top market) for two months so far this year, totaling \$349 and \$273 million in March and May, compared to \$297 and \$258 million for the U.S.

METALS, FISHMEAL & GRAPES

13. Mined metals dominate Peru's exports to China, led by copper. Through May, copper exports to China totaled \$632 million, accounting for over 50% of the total \$1.2 billion exported to China this year. Furthermore, four of Peru's top five exports to China are mined metals (copper, lead, iron, and zinc), which in sum account for nearly 65% of total exports. China's accelerated growth rate has triggered a major demand for commodities like copper and iron, which has resulted in significant price hikes. These factors have greatly increased Peru's trade with China as well as Peru's export earnings. China is by far the top importer of Peruvian copper and fishmeal.

Top Six Peruvian Products Exported to China (Jan-May)

Product (in USD millions)	2006	2007	%Change
Copper Concentrates	229.8	632.1	175.0
Fishmeal	200.4	229.7	14.6
Lead Concentrates	73.9	133.6	80.8
Iron Concentrates	42.1	46.6	10.7
Zinc Concentrates	8.1	41.2	408.6

Source: Adex, SUNAT

14. Although Peru's agricultural products do not constitute a principal export to China, they have also experienced major growth. For example, grape exports to China through May totaled \$1.2 million, a 75% increase from the \$736,000 exported during the same period last year. Peruvian grape crops are planted so that harvests coincide with the highly profitable Chinese New Year.

DISCUSSIONS UNDERWAY FOR A LIMITED FTA

15. President Alan Garcia, recognizing China as a top priority, has announced his objective to turn Peru into China's main commercial, economic and social partner in South America. Consequently, at the end of March, President Garcia and Li Changchun (a member of the Permanent Committee of the Political Bureau of the Communist Party of China) confirmed their countries' common interest in negotiating a bilateral free trade agreement (FTA).

16. A Peruvian delegation has already traveled to China, and a viability study for the negotiation of the FTA is expected to conclude this month after the visit of a Chinese delegation to Peru. Peruvian officials are hoping to formally announce the commencement of negotiations of the FTA at the September 2007 Asia-Pacific Economic Cooperation (APEC) summit in Sydney. Peruvian and Chinese authorities plan to have the FTA ready for signature by the November 2008 APEC summit in Lima.

EXCLUDING SENSITIVE SECTORS

17. The Peru-China FTA is expected to be considerably less ambitious than the U.S.-Peru Trade Promotion Agreement (PTPA) pending approval by the U.S. Congress. It will be a commercial agreement which will exclude sensitive sectors for both sides. These would be textiles and footwear for Peru, while China will leave out agricultural products. Peru is hoping for results similar to those achieved by Chile in their FTA with China, in which sensitive sectors were also excluded. Since the Chile-China FTA went into effect in July 2006, exports from Chile to China have increased 143 percent.

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